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VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 322 **June, 1987**

Business in Virginia May, 1987 Data

The economic indicators for which we have May data plus the April payroll employment figures show the Commonwealth steadily following the expected course. That course, as our regular readers are aware, has some negative aspects, falling building permits and new car registrations.

Building permits(dollar value of residential and commercial permits) in May declined 38.0 percent, adding further confirmation that the predicted downturn in construction activity soon will become apparent in the majority of Virginia's urban areas and in construction-related businesses. The substantial May decrease is not an aberration. Permits now are down 13.6 percent for the year to date, and the June results are very likely to be another large decline compared to 1986. The drop in planned construction actually has some wecome features. First, it is an adjustment to a more sustainable level, more in balance with demand. Secondly, the adjustment is occurring while Virginia's overall growth is quite strong and we can absorb the dampening effect without our growth coming to a halt.

There always are crosscurrents in the flow of economic activity, with some sectors or regions moving down while others are advancing. A downturn in a leading indicator such as building permits does not signal an imminent recession unless other major sectors also are showing too much weakness to offset the downturn. When an economy is displaying as much overall strength as the Virginia economy, the downturn in such leading indicators merely points to some future deceleration in the rate of growth in jobs and income, a deceleration we already are experiencing and expected. There are no signs that Virginia is approaching a recession in 1987 or 1988. The Commonwealth's growth simply is following a course of mild deceleration from exceptionally high rates to ones that are merely average for us but above-average compared to the nation.

The continuing decline in new car registrations, 4.9 percent in May and 7.5 percent for the year to date, should be interpreted in the same context. Virginians are buying fewer cars after the extaordinary surge last year. But the decrease is not exceptional and not a signal that consumers are cutting back across the board. Our sample of retail stores across the state reported a 5.8 percent gain in May compared to May of 1986, better than the national rise of 5.1 percent in a comparable measure, retail trade excluding the automobile group.

The April nonagricultural employment growth statewide was 3.5 percent, lowering the cumulative 1987 growth to 3.9 percent. That is a continuation of the steady deceleration expected this year, in line with our prediction of a 3.0 percent gain for 1987.

The Commonwealth's performance to date in 1987 shows a mature expansion which is slowing a step or two but still has the strength and endurance to stay ahead of the pace in most other states. RLP

Chart I

Nine Selected Business & Economic Indicators Percentage Change

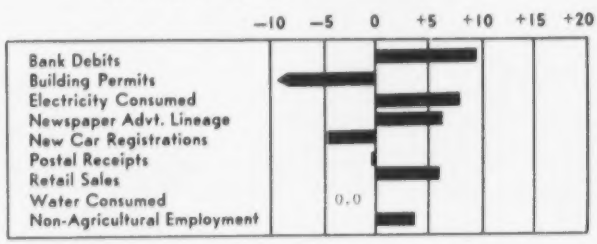
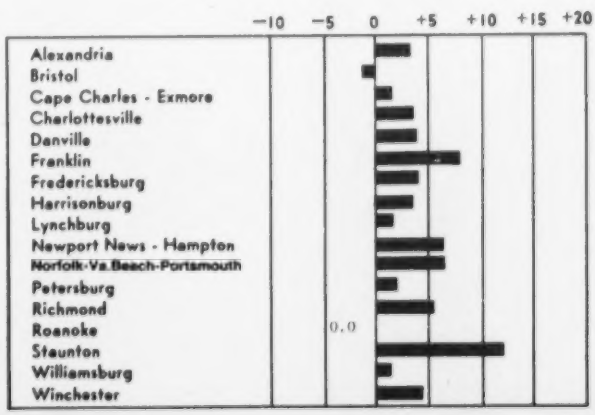


Chart II

City Indices



SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I May, 1987

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	April NON AGRI-CULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		389.7	187.4	128.5	119.5	184.5	137.1	95.4	186.2	355.1
Alexandria	162.9	418.0	319.0	138.0	N.A.	150.8	180.5	102.2	189.5	N.A.
Bristol	142.5	N.A.	129.8	99.5	83.1	123.3	112.8	96.4	147.1	325.7
Cape Charles - Exmore	126.0	N.A.	251.7	117.7	N.A.	95.9	N.A.	N.A.	122.0	176.6
Charlottesville	187.9	295.3	300.4	117.9	N.A.	150.0	108.5	123.4	234.6	299.4
Danville	130.8	N.A.	70.9	111.5	139.3	99.0	96.0	87.3	N.A.	231.4
Franklin	144.0	N.A.	335.2	105.2	122.5	121.3	N.A.	107.8	131.4	300.6
Fredericksburg	314.1	202.1	2038.7	N.A.	194.8	190.0	N.A.	67.5	237.9	1002.6
Harrisonburg	184.9	240.4	486.7	N.A.	147.2	116.7	N.A.	147.8	191.7	307.7
Lynchburg	224.4	344.1	187.8	112.3	N.A.	129.4	98.6	111.5	186.4	784.3
Newport News - Hampton	160.3	N.A.	298.5	114.2	107.1	108.1	136.3]	130.8	228.7	N.A.
Norfolk - Va. Beach - Portsmouth	189.2	401.7	213.8	141.4	102.4	143.2		88.7	300.5	N.A.
Petersburg	145.0	379.4	356.8	N.A.	N.A.	71.2	127.3]	102.3	160.7	232.4
Richmond	162.4	447.8	395.7	141.5	141.3	151.2		108.9	153.6	330.8
Roanoke	156.8	329.7	56.2	92.1	183.2	106.4	121.4	107.2	167.2	299.1
Staunton	149.2	147.6	43.5	N.A.	94.7	101.7	N.A.	N.A.	136.6	289.2
Williamsburg	174.2	180.0	10.3	153.8	N.A.	133.9	N.A.	90.7	155.1	375.5
Winchester	166.0	374.7	152.1	126.4	233.2	138.5	N.A.	N.A.	N.A.	N.A.

TABLE II May, 1987

Percentage Change from same month last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	April NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	April RETAIL SALES ‡
The State		9.2	-38.0	7.5	6.2	-4.9	3.5	0.0	5.8	9.8
Alexandria	3.2	44.4	76.0	13.5	N.A.	-9.1	4.1	2.3	-0.7	16.5
Bristol	-1.4	N.A.	121.3	6.3	-2.8	-8.3	3.0	9.3	-7.0	0.6
Cape Charles - Exmore	1.2	N.A.	-29.5	8.4	N.A.	-19.2	N.A.	11.8	-3.1	16.4
Charlottesville	3.5	20.9	138.8	2.3	N.A.	22.9	4.2	-6.3	-4.4	18.4
Danville	3.8	N.A.	-49.2	3.3	12.9	1.2	0.0	-0.8	N.A.	6.1
Franklin	7.8	N.A.	-30.3	3.6	-2.0	-27.5	N.A.	32.7	-1.1	59.0
Fredericksburg	3.7	27.7	2613.9	N.A.	9.5	-14.2	N.A.	-2.4	2.0	28.9
Harrisonburg	3.4	-17.3	-3.1	N.A.	0.4	-8.8	N.A.	1.2	2.4	23.6
Lynchburg	1.3	-27.1	-14.6	5.0	N.A.	10.0	2.2	-12.3	1.5	3.1
Newport News - Hampton	6.2	N.A.	-42.1	-3.9	16.8	1.1	2.5]	-3.1	13.6	1.3
Norfolk - Va. Beach - Portsmouth	6.3	11.1	-28.6	11.3	3.0	9.0		-1.4	12.3	-4.5
Petersburg	2.1	8.7	40.0	N.A.	N.A.	-11.6	3.2]	4.8	5.5	1.8
Richmond	5.1	14.3	-37.7	6.1	11.3	3.7		-4.2	6.6	6.4
Roanoke	0.0	-23.5	0.9	-2.6	-2.5	-14.3	2.3	-5.0	7.3	-0.1
Staunton	12.3	18.1	-27.6	N.A.	6.8	-16.3	N.A.	N.A.	24.2	10.9
Williamsburg	1.4	10.6	-96.8	8.1	N.A.	-22.9	N.A.	-13.2	7.7	15.0
Winchester	4.4	9.8	-62.9	6.8	7.0	-15.8	N.A.	N.A.	N.A.	19.7

TABLE III

Percentage Change January - May from same period last year

CITY	CITY INDEX *	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	Jan.-Apr. NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	Jan.-Apr. RETAIL SALES ‡
The State		15.0	-13.6	6.7	2.4	-7.5	3.9	-0.1	2.9	10.8
Alexandria	3.8	45.0	295.2	11.6	N.A.	-4.3	4.8	0.7	1.7	12.8
Bristol	-0.4	N.A.	-14.0	-0.4	0.2	-16.7	3.4	17.7	-5.5	8.9
Cape Charles - Exmore	4.4	N.A.	-37.7	7.4	N.A.	-22.7	N.A.	23.9	1.5	18.0
Charlottesville	1.6	24.8	20.0	7.3	N.A.	-14.8	4.1	-2.2	0.9	15.4
Danville	0.8	N.A.	-29.9	5.8	5.6	-20.3	1.1	9.4	N.A.	3.0
Franklin	4.8	N.A.	-22.0	8.6	4.0	-11.5	N.A.	6.6	-2.6	38.2
Fredericksburg	6.1	32.9	300.3	N.A.	9.1	-9.4	N.A.	3.7	5.9	21.1
Harrisonburg	2.8	-2.1	34.1	N.A.	1.8	-14.5	N.A.	1.6	2.4	19.8
Lynchburg	-1.1	-3.9	27.8	4.4	N.A.	-13.5	1.7	-9.1	0.3	9.5
Newport News - Hampton	3.5	N.A.	-42.2	4.0	6.6	-2.1	2.4]	-4.6	0.8	8.6
Norfolk - Va. Beach - Portsmouth	3.8	45.2	-20.3	3.3	0.6	-1.3		3.4	6.2	6.8
Petersburg	2.6	-12.3	-38.9	N.A.	N.A.	-11.1	3.7]	3.8	3.8	10.3
Richmond	2.6	14.7	16.1	7.2	5.8	-4.3		-3.2	0.7	12.4
Roanoke	-1.3	-15.9	32.5	0.7	-3.9	-20.6	2.6	-1.9	3.9	0.1
Staunton	8.0	7.8	64.8	N.A.	1.1	-21.1	N.A.	N.A.	18.0	14.0
Williamsburg	3.7	11.6	-72.0	8.5	N.A.	-16.7	N.A.	0.7	8.8	6.8
Winchester	1.5	7.4	-16.7	4.4	N.A.	-21.0	N.A.	N.A.	N.A.	21.0

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.
#Virginia Employment Commission data which lags behind current reports.
†Preliminary data based on a survey sample.
‡Revised data based on sales tax information which lags behind current reports.
] Only total MSA data are available for these areas

N.A. — Not Available
0.0 — No Change

After SIN- The Summit of Industrialized Nations

The Venice economic summit in June yielded no specific initiatives for balancing world trade flows or the relative values of currencies. The participants merely reaffirmed the desirability of already existing initiatives, of continuing discussions, and of the monitoring of world economic developments. The final communique, however, did not pledge any specific action if economic trends diverge from the desired path.

The annual summit has lost much of its earlier status primarily because the nations have followed through on prior pledges to increase their consultations with each other on economic issues which have international repercussions. Meetings of high-level officials now occur throughout the year, and cooperative policy actions may be announced at any time, such as Japan's $41 billion emergency economic stimulus package announced in May. Therefore the lack of specific policy decisions at this June's summit does not imply no action will be taken by the participants to adjust world trade imbalances.

In my opinion, the risk that the United States will adopt an overdose of the wrong trade-related policies is far greater than the risk that other countries will do nothing. The political climate here seems to be one of impatience, of a perceived need for us to unilaterally seek a 'quick fix' for the trade deficit problem. That could sacrifice our economic health as well as the health of many other nations around the world. There are actions we need to take, but they will not wipe out the trade deficit quickly.

The United States is the dominant force in world trade. Last year our imports of goods and services were $498 billion. For perspective, that is over 5 times as large as the total output of the Commonwealth of Virginia. Total imports by all countries other than the Soviet block were roughly $2.1 trillion, valued in dollars. Our imports accounted for almost one-quarter of the free world's international trade.

Our exports of goods and services were of course much less. But, they still were $373 billion, about 18 percent of total world trade.

Our international deficit on goods and services in 1986 was $125 billion, by itself 6 percent of world trade. Elimination of that deficit in a one-year period would cause a significant decrease in output for the rest of the world, no matter what method we use. A $125 billion reduction in imports means a direct loss of that much foreign production. Alternatively, a $125 billion increase in our exports means foreign producers would have to experience an equivalent drop in their domestic demand. Any 'quick fix' policies we might adopt to eliminate the deficit would significantly reduce economic growth in other countries, in some cases pushing them into recession.

Any 'quick fix' policies also would do severe damage to U. S. economic health. The only quick way for the United States to wipe out the trade deficit is to reduce imports: by raising their prices through tariffs, by cutting their volume through quotas, or by reducing the quantity you and I want to purchase by lowering our incomes. Any of these three methods would require massive action if the target were a 25 percent decrease within one year in our payments to other countries for the goods we import. If we choose tariffs, they would have to be about 25 percent of the price, therefore the immediate effect for our consumers would be higher prices for imported goods and services, creating a general inflationary surge of over 2 percent in U.S. price levels. We would be back in the inflationary spiral we suffered four years of low growth and recession to break. If we choose quotas, they would have to restrict import volume by more than 25 percent, since experience has shown foreign producers would raise their prices to some extent. If either massive tariffs or severe quotas reduced import volume by 25 percent that would mean a sudden surge in demand for U.S. substitutes. Whatever the long-run benefits, the short-run impact would have some substantial costs. For many products American industry would not be able to adjust quickly to producing the volume of U.S. substitutes suddenly demanded. Prices for these products would also rise.

Neither tariffs nor quotas can be viewed as effective 'quick fixes', even from just the U.S. point of view. The inflationary pressures created are too high a cost. There is an additional very likely cost. If we did succeed in sharply curtailing imports by either method, other countries would experience strong political and economic pressures to retaliate with their own restrictions on our imports to them. Then a U.S. trade deficit reappears along with falling U.S. output.

The third alternative for reducing imports is the indirect approach. Slow our growth so that imports fall naturally by enough to move us into balance. Given the size of the import reduction needed, we would have to cut real GNP growth by at least 5 percent. But as you know, our real GNP is only expected to grow about 2.5 percent this year. Subtract 5 from a 2.5 percent growth rate and you can see where that leaves us: recession.

None of those three alternatives directly involved our exports. Large export gains cannot be generated unilaterally by U.S. policy. We cannot force other countries to buy from us, and most of their governments could not force their people to do so even if they wanted to. In order to sell more, we need cooperation.

In some cases that means getting more access to foreign markets. We do need to continue to push hard for fair trade, equal access, not just in manufactured goods but also agriculture and services. We are very good at producing services, for example financial services and telecommunications. But most services are generally not even a part of the GATT agreements: the General Agreements on Tariffs and Trade. In addition many important services are protected if not

owned by other governments, complicating the issue of fair competition. Both the United States and world trade in general will benefit from negotiations that acknowledge and set fair trade standards for the international flow of services.

Better access to markets of all types will help, but it cannot do the job alone or quickly. Our international deficit on goods and services went from $200 million in 1982 to $126 billion in 1986. That did not happen because all the other countries suddenly changed how they play the game and became astronomically more unfair. And we will not eliminate much of that deficit in the next year or so if they suddenly change to our view of "fair trade".

More access is not enough. Those countries have to have more ability to buy. They have to be producing more output, and generating more income in the process, so they can buy more of what we produce. And their output growth has to be generated inside their countries, not by selling more goods to the United States.

In short, we need for other countries to stimulate their own economies to create their own higher growth. That will enable us to increase our exports, adding to world trade rather than subtracting from it. A major part of our strategy has been to urge the other major industrialized countries to stimulate their economies, primarily through more stimulative fiscal policies as Japan is doing.

Higher real output growth outside of the U.S. is a key element. However, it will not be a quick fix. World output growth cannot and will not double overnight. Even a very remarkable one percent increase in worldwide real growth in 1988 would not by itself eliminate our trade imbalance.

In the best of all possible worlds, with only very mild additional declines in the dollar, improved access to foreign markets, and more stimulative domestic policies in the other key industrialized nations, our deficit balance on goods and services will take several years to eliminate in a manner that does not create significantly higher inflation or a recession in the United States. We need the patience to accept that, and not demand the quick fix from our own government.

RLP

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